LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 6514 **DATE PREPARED:** Jan 27, 2000
BILL NUMBER: HB 1043 **BILL AMENDED:** Jan 25, 2000

SUBJECT: Unemployment insurance.

FISCAL ANALYST: Chuck Mayfield
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FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill has the following provisions:

Part(a) The bill increases the earnings base used to compute unemployment compensation over three years to a maximum of $10,000 in a calendar quarter.

Part(B) It provides that the maximum total amount of unemployment compensation benefits payable may not exceed 26 times the individual's weekly benefit, or 32% of the individual's wage credits with respect to the individual's base period, whichever is less.

Part(C) It decreases the minimum wage credit necessary to qualify for unemployment compensation to $2,000 in the base period, and requires the total wage credits in the base period to equal at least one and one-quarter times the wages paid in the highest quarter.

Part (D) It decreases the unemployment compensation contribution rate schedules for employers with a merit rating by 14%. The bill also decreases the unemployment compensation contribution rate schedule for employers with a penalty rating to the lowest amount allowed under federal law.

Part (E) The bill eliminates the 25% reduction of unemployment compensation award for disqualifying conditions and failure to find work. It revises disqualification provisions for unemployment compensation. The bill makes conforming amendments.

Effective Date: July 1, 2000.

Explanation of State Expenditures: (Revised) All of the provisions of this bill will have an impact to the Unemployment Benefit Trust Fund. The balance of the Unemployment Benefit Trust Fund as of June 30 , 1999 was $1.46 billion.

Part (A) The current earnings base used for the computation of weekly benefits is $5,800 per quarter for a maximum weekly benefit of $244. Increasing the earnings base to $10,000 per quarter increases the maximum weekly benefit to $420, an increase of $176 (72.13%). In 1999, the average weekly benefit paid was $204.95, approximately $40 below the maximum benefit allowed. Using the average weekly unemployment benefits paid in 1999, the following table illustrates the potential fiscal impact of changing the earnings base.

Avg. Computed Weekly Benefit Amount at $5,800	$212.26 per week
Avg. Computed Weekly Benefit Amount at $7,200	$239 per week
Avg. Computed Weekly Benefit Amount at $8,600	$260 per week
Avg. Computed Weekly Benefit Amount at $10,000	$276 per week
Percent increase from $5,800 to $7,200	12.6%
Percent increase from $7,200 to $8,600	8.8%
Percent increase from $8,600 to $10,000	6.2%
Amount of Unemployment Insurance compensated in 1999	$273,270,000
Estimated Impact to go to $7,200	$34,426,000
Estimated Impact to go to $8,600	$61,462,000
Estimated Impact to go to $10,000	$82,061,000

This provision will impact the amount of benefits available to an individual from the Unemployment Benefit Trust Fund. Based on the amount paid in unemployment benefits in FY 1999, this bill would increase expenditures from the Unemployment Benefit Trust Fund by approximately $34.4M in FY 2001, $61.5M in FY 2002, and $86.1M for FY 2003.

Note: The Unemployment Benefit Trust Fund is funded by quarterly contributions made by employers. The amount of each employer's contribution is based on each employer's individual unemployment account history and the past year's statewide unemployment rate. Other factors, including benefits paid to former employees, voluntary payments made, and the partial selling and purchasing of other businesses by the employer also impact each employer's rate. The potential impact of the provisions of this bill will change as the state's economy changes. For example, if the state's unemployment rate increases, the amount of unemployment benefits paid from the Fund will increase, and an employer's contribution rate to the Fund will change.

Part (B) Currently the weekly benefit amount is the lowest of the following amount: (1) 28% of total earnings in four quarters; or (2) 26 times the weekly benefit based on 5% of the first $2,000 of the high quarter wages and 4% or the remaining wages. This provision changes the maximum total amount of benefits payable to an eligible individual during any benefit period from 28% to 32%, but keeps the benefit period to not more than 26 weeks. The change would affect claims that are capped by the 28%. For 1999, 34,968 people would have received an additional 2.1 weeks of benefits at an average rate of $207.62. The impact is estimated to be $15.2 million (($207.62*2.1 weeks)*34,968 claims).

Part (C) This provision decreases the minimum computation base for unemployment compensation from $2,750 to $2,000. The total wage credits in the base period are to equal at least 1.25 times the highest quarter. This would mean that an individual could make no more than $1,600 in the base period ($1,600 x 1.25 = $2,000). Under this provision and the provisions of (C), an individual would receive a total benefit of $640 (32% of 2,000).

This bill will increase the number of individuals who are eligible to receive unemployment benefits. In CY 1999, there were 1,899 individuals were determined to be monetarily ineligible for unemployment benefits because computation base was between $2,000 and $2,750. Assuming that all 1,899 of the individuals would be eligible for unemployment benefits under this provision, an estimated $1 M (1,899 claims x $497) in additional unemployment benefits would be paid from the Unemployment Benefit Trust Fund.

Part (E) This bill also eliminates the 25% reduction of unemployment compensation for disqualifying conditions and failure to find work. The bill also revises disqualification provisions for unemployment compensation. This provision would increase the amount of unemployment compensation paid to individuals who currently have disqualifying conditions. The Department of Workforce Development reviewed the 1999 claims and found that 34,719 people, 36.7% of the people monetarily eligible for benefits, had reduced benefits. The average potential duration of benefits was 20.7 weeks while the actual draw was 17.7 weeks. The average reduction was 3 weeks. The impact of the additional 3 weeks of benefits is $22.9 million ((3 weeks*$218.57)*34,719 claims).

The maximum impact to the Unemployment Benefit Trust Fund from the provisions of this bill is an estimated $73.5M for FY 2001, $100.6M for FY 2002, and $121.2M in additional unemployment benefit compensation.

The State of Indiana is self insured for unemployment benefits and pays claims as they occur. Each agency is responsible for paying its unemployment claims. For FY 1999 the state paid $1.5 M in benefits, $956,447 from the General Fund and $574,953 from dedicated funds. The maximum impact to state agencies is about $700,000 ($437,000 from the General Fund and $263,000 from dedicated funds), for the provisions of this bill.

Explanation of State Revenues: (Revised) Part(D) The bill reduces revenue by about 14% to the Unemployment Benefit Trust Fund. For FY 1998-99, the revenue to the fund was $265,499,209. The reduction in revenue for FY 1999 would have been about $40.6M.

Explanation of Local Expenditures: The impact on a local unit of government will be as an employer. Depending on the experience of the fund, rates might increase in future.

Explanation of Local Revenues:

State Agencies Affected: Department of Workforce Development and all State Agencies

Local Agencies Affected: All

Information Sources: Charles Mazza, Department of Workforce Development, (317)232-7460.